



WEEKLY REPORT

ARIZONA STATE RETIREMENT SYSTEM

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For the week ending Friday, March 21, 2003

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

***** Please distribute or make this report available to your employees. *****

ASRS News:

The next ASRS Board meeting is scheduled for Friday, April 18, 8:30 a.m., in the ASRS Phoenix office, 3300 N. Central Ave. ASRS Board Meetings are always open to the public and your attendance is encouraged. Board meetings, agendas and minutes can be found on the ASRS website.

Next Week in the State Legislature:

- Monday, March 24 – Senate Finance Committee, 1:30 p.m., SHR 1
 - Consideration of Executive Nominations to the ASRS Board:
 - Keith Meredith
 - Lawrence Trachtenberg
 - Steven Michael Zeman
- Tuesday, March 25 – House Government and Retirement Committee, 9:00 a.m., HHR 3
 - SB 1037 ASRS; surviving spouses; health insurance
 - SB 1224 ASRS; service purchase; calculation
 - SB 1225 ASRS; investment management; requirement
- Wednesday, March 26 – House Health Committee, 9:00 a.m., HHR 4
 - SB 1036 public retiree health insurance subsidy

ASRS Legislation NEWS

Rural Health Insurance Subsidy

As we reported last week, the House version of the Rural Health Insurance Subsidy (HB 2349) was amended to allow retirees to join their former employer's health plan. After a series of meetings with stakeholders and employer groups, it appears this new version would not be practical. The sponsors have stated they intend to remove the amendment in the Senate, which means the bill once again extends the rural subsidy for two years, with the 10% and 15% annual reductions in benefit.

The Senate version of the subsidy extension (SB 1036) passed the Senate 25-5 but has been assigned to three committees in the House. A triple committee assignment is a bad sign at this point in the process. The deadline to hear bills in committee is April 4.

We will continue to provide an update each week as additional information is available on this important issue.

Terrorism Investment Bill

The terrorism investment bill (SB 1296) was amended on the floor of the Senate this week. The amended bill requires all fund managers that invest state funds to ensure they are complying with all federal laws pertaining to investing in companies that have been identified by the federal government as a threat to national security. The federal government publishes a free list of persons and companies with whom U.S. citizens and U.S. companies are prohibited from conducting business. Since all ASRS fund managers are already in compliance with federal law, the reporting requirements under this bill are very reasonable.

The ASRS appreciates the diligence with which Senator Martin and ASRS Chairman Alan Maguire worked to develop a solution that would not harm the members of the ASRS. State Treasurer David Petersen is still pursuing his original legislation, however, so this issue may still be very much alive.

Defined Contribution Plan (Supplemental Retirement Savings Plan)

After many, many months of negotiations and drafts, the statutory language changes required by the IRS to implement the Defined Contribution Plan have been finalized. A strike-everything amendment will be most likely be introduced next week to accomplish the language changes needed by the ASRS and the Public Safety Personnel Retirement System. The implementation of the Defined Contribution Plan is required before members can participate in the Modified DROP Program utilizing pre-tax dollars.

Other legislation affecting the ASRS is listed in the attached Quick Reference.

Quick Reference
ASRS Related Legislation
(Updated through Friday, March 21, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2023 – ASRS; unpaid contributions by Huppenthal As Passed the House: <ul style="list-style-type: none"> Provides a member with 90 days to make payments after being notified that the employer has paid all amounts past due. If the member does not pay within 90 days, the member is responsible for accrued interest from that point on. Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full. Requires an employee to provide verification of past employment and qualification for participation in ASRS. States that, beginning June 30, 2004, the employer is only responsible for making payments for any unpaid contributions and interest for service which occurred within 15 years of the date of notification. Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” 	Passed House 56-0-2. Assigned: Sen. FIN. Status: Sen. First Read 02/05/03. Passed Sen. FIN DPA 8-0-1. <u>Scheduled Sen. RULES 03/24/03.</u>	As Passed the House: None Expected.	As Passed the House: Actuarial letter received stating no cost.
HB 2024 (see SB 1224) – ASRS; service purchase; calculation by Huppenthal As Passed the House: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> The sum of the 12 months of compensation prior to the request. The sum of the 36 months of compensation prior to the request, divided by three. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12. The annualized compensation of the full pay period prior to the request. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	Passed House 57-0-1. Assigned: Sen. FIN. Status: Sen. First Read 02/04/03. Awaiting Sen. FIN.	As Passed the House: None Expected.	As Passed the House: Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2067 – ASRS; technical correction by Huppenthal As Introduced: Makes a technical change to 38-742 “reinstatement.”	Assigned: Hse. RULES. Status: Awaiting Hse. RULES.	As Introduced: None Expected.	As Introduced: None.
HB 2349 (see SB 1036) – public retirees; rural areas; insurance by Konopnicki, Flake, Wagner, Arzberger, and Brown As Passed the House: Eliminates the extension of the rural health insurance subsidy. Requires all public employers to allow their retirees to join the health plan that they offer to their active employees. States that the cost to the retiree cannot exceed the total cost of the premium for active employees. Provides that if a retiree was given the option of staying with the employer’s plan at the time of retirement and opted not to stay in, that employer does not have to allow that member the option of joining now.	Passed House 40-17-3. Assigned: <u>Sen. FIN.</u> <u>Sen. GOV.</u> Status: <u>Awaiting Sen. FIN.</u>	As Passed the House : Requested. As Amended in Hse. GR: None Expected.	As Passed the House: Requested. As Amended in Hse. GR: Unfunded liability of \$31.1 million, an increase in the contribution rate for all employers and employees of 0.022% each, which is a combined cost of \$3.1 million more in contributions annually for 18 years (GF cost of \$352,927 per year).
HB 2397 (see SB 1296) – public monies; investment protection by Yarbrough, Martin, Huppenthal, and 4 As Amended in Hse. WM (Strike Everything): <ul style="list-style-type: none"> Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing. Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee. Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee. 	Assigned: Hse. WM. Status: Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES.	As Amended: Requested.	As Amended: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2398 – ASRS; long-term disability increase by Carruthers, O'Halleran, Gullett As Introduced: Provides an increase to a member's LTD benefit equal to a benefit increase provided to a retired member of ASRS.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).
HB 2401 – deferred retirement option plan by Wagner, Quelland, Gray, and 6 As Introduced: Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
HB 2455 – ASRS; termination option by Huppenthal As Passed the House: Makes technical changes to the Modified DROP Program.	Passed Hse. 57-0-3. Assigned: <u>Sen. FIN.</u> Status: <u>Awaiting Sen. FIN.</u>	As Passed the House: None Expected.	As Passed the House: None.
HCR 2002 – impeachment; public retirement systems; forfeiture by Huppenthal As Introduced: Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	Assigned: Hse. GR, Hse. JUD. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HCR 2029 – public monies; investment protection by Nichols, Verschoor As Introduced: Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP.	As Introduced: Requested.	As Introduced: Not Requested. (If implemented, cost may be the same as SB 1296 and HB 2397.)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23 As Passed the Senate: Extends the rural health insurance subsidy until 2005. Includes counties with a population less than 200,000 in the definition of “nonservice area.” Requires the ASRS to provide a report to the Legislature on efforts to provide affordable, meaningful, and accessible coverage to retirees.	<u>Passed Senate 25-5.</u> Assigned: <u>Hse. HEALTH, Hse. GR, Hse APPROP.</u> Status: <u>Scheduled</u> <u>Hse. HEALTH 03/27/03.</u>	As Passed the Senate: None Expected.	As Passed the Senate: Unfunded liability of \$37.3 million, an increase in the contribution rate for all employers and employees of 0.03% each, which is a combined cost of \$3.7 million more in contributions annually for 18 years (GF cost of \$425,116 per year).
SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17. As Passed the Senate: Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the surviving spouse after the member’s death.	Passed Senate 29-0-1. Assigned: <u>Hse. GR, Hse. WM.</u> Status: <u>Scheduled</u> <u>Hse. GR 03/25/03.</u>	As Passed the Senate: Requested.	As Passed the Senate: Actuarial letter received stating this bill is cost neutral.
SB 1160 – ASRS; veterans; service credits by Arzberger As Introduced: Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations.	Assigned: Sen. FIN, Sen. APPROP. Status: Awaiting Sen. FIN. DEAD (?)	As Introduced: Requested.	As Introduced: Unfunded liability of \$628,050, and increase in the contribution rate for all employers and employee of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change and therefore no cost.
SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton As Amended in Sen. FIN: Creates a study committee on managing retiree health-care costs.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW.	As Amended: None Expected.	As Amended: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1224 (see HB 2024) – ASRS; service purchase; calculation by Martin, Reagan As Passed the Senate: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> 1. The sum of the 12 months of compensation prior to the request. 2. The sum of the 36 months of compensation prior to the request, divided by three. 3. If the member has retired from the ASRS, the average monthly compensation used to calculate the member’s last pension, times 12. 4. The annualized compensation of the full pay period prior to the request. 5. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	Passed Senate 29-0-1. Assigned: Hse. GR, Hse. APPROP. Status: <u>Scheduled Hse. GR 03/25/03.</u>	As Passed the Senate: None Expected.	As Passed the Senate: None.
SB 1225 – ASRS; investment management; requirement by Martin As Passed the Senate: Amends ARS 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from “institute of chartered financial analysts” to the “Association for Investment Management and Research.”	Passed Senate 30-0. Assigned: Hse. FII, Hse. GR. Status: <u>Passed Hse. FII DP 11-0-0-1. Scheduled Hse. GR 03/25/03.</u>	As Passed the Senate: None Expected.	As Passed the Senate: None.
SB 1226 – ASRS; legal counsel by Martin As Introduced: Exempts the ASRS from obtaining legal counsel only from the Attorney General.	Assigned: Sen. JUD, Sen. FIN. Status: Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. DEAD (?)	As Introduced: None Expected.	As Introduced: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<p>SB 1296 (see HB 2397) – public monies; investment protection by Martin, Stump, Yarbrough As Passed the Senate: Requires asset managers and financial firms that invest money on behalf of the state to submit annual reports if they have identified that they invest state money in companies that are listed on the US Treasury Department's Office of Foreign Assets Control specially designated nationals' and blocked persons list. The report must include a list of companies that the fund manager holds that are on the list, as well as alternative investment strategies and their impact on the funds and how the portfolio could be altered to exclude those companies. Prohibits any fund manager that fails to provide a report from investing money on behalf of the state. Establishes a task force to study ways for public funds managers to mitigate the risks when investing in companies that have ties to terrorist sponsoring countries and ways and methods to limit investments in companies with ties to terrorist sponsoring countries without compromising portfolio returns. Repeals the task force on December 31, 2004.</p>	<p><u>Passed Senate 16-10-4.</u> Assigned: <u>Not yet assigned.</u> Status: <u>Awaiting Hse. First Read.</u></p>	<p>As Passed the Senate: Requested.</p>	<p>As Passed the Senate: Requested.</p> <p>As Amended in Sen. FIN: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.</p>

LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	Hse.	House of Representatives
C&P	Constitutional and Proper	JUD	Judiciary Committee
CORP	Corrections Officer Retirement Plan	LTD	Long Term Disability
COW	Committee of the Whole	PFC	Proper for Consideration
DP	Do Pass	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
DPA	Do Pass as Amended	PSPRS	Public Safety Personnel Retirement System
EORP	Elected Officials' Retirement Plan	SB	Senate Bill
FII	Financial Institutions and Insurance Committee	S/E	Strike Everything Amendment
FIN	Finance Committee	Sen.	Senate
GF	General Fund	WM	Ways and Means Committee
GR	Government and Retirement Committee		

**The weekly legislative report is available on-line at the ASRS Web site:
www.asrs.state.az.us**

The ASRS External Affairs Division and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at KellyO@asrs.state.az.us.